The Real Estate TRENDS

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

1960 IN RETROSPECT

AS 1960 bows out, we are all wondering how good or bad the new year will be. Since future events will happen to a large extent because of current circumstances, we thought it would be interesting to survey the results of this year's events in real estate, construction, and mortgage activity.

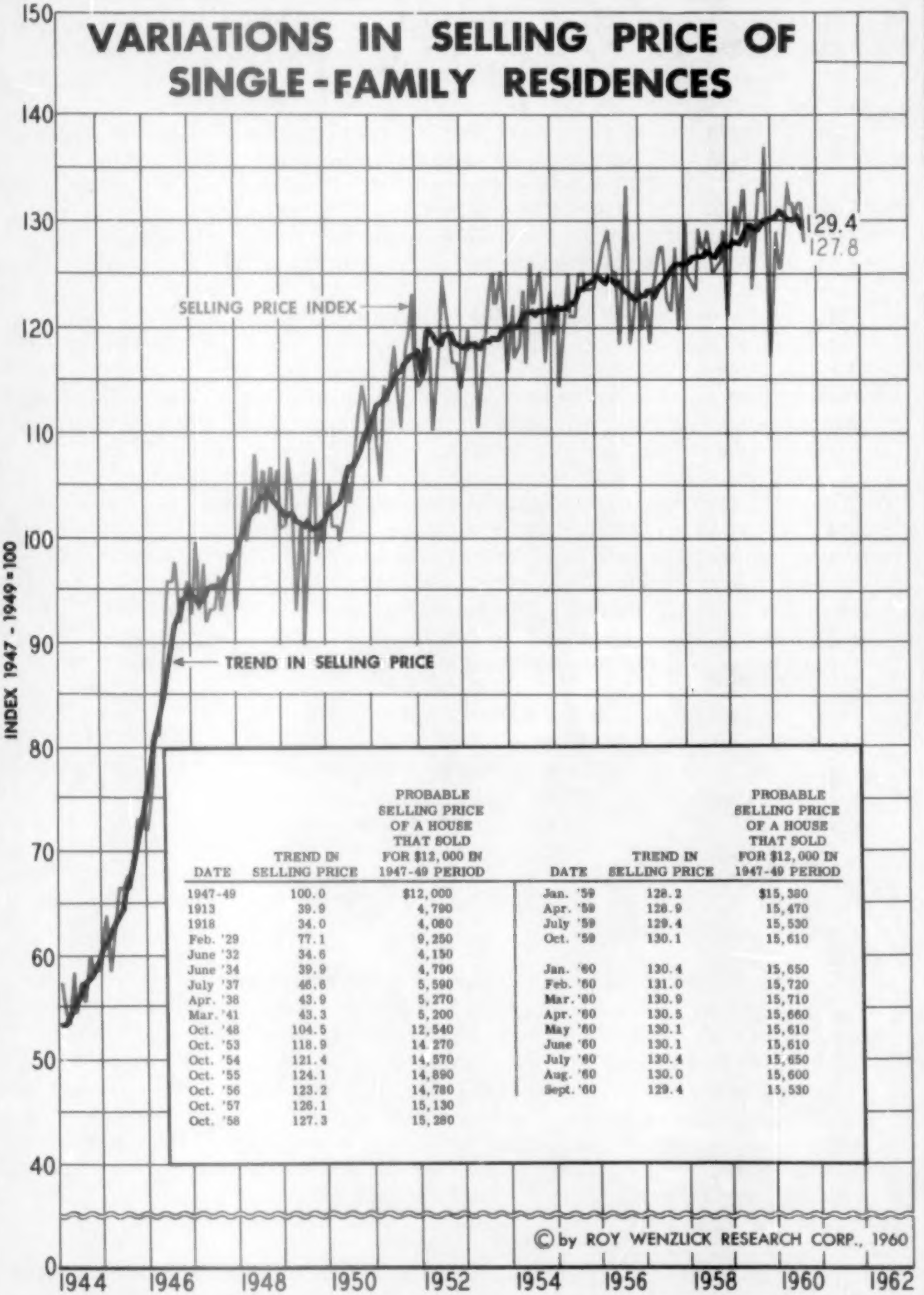
The year started with rosy forecasts of the soaring sixties. The flight was rudely interrupted on January 6, when the Dow-Jones Industrial Stock Price Index began its fall from the new all-time high. Continued increases in consumer spending on goods and services and industrial spending on new plant and equipment kept general business at a high level. It wasn't until the third quarter that Gross National Product fell from the new high of $505 billion to $503 billion. Since plant and equipment investment has continued downhill through the rest of the year, general business activity has also been down.

Another early sign of the summer decline in business activity was the decrease in manufacturers' sales during the spring. This led to the later decline in inventories, which were too large for the current volume of business. (See chart on page 591.) When a rapid rise in sales develops, inventories will increase and add to the level of general business activity. It takes a while, however, for retail stores to realize sales are changing rapidly and to relay this to the manufacturer. When sales go down, as they did in the spring, it also takes time to work off inventories even after cutting new orders in response to the sagging sales.

While the rest of the economy was flying high during the early part of 1960, real estate didn't even get a chance to take off. Since April 1959, the rate of new residential building in cities of all sizes has been declining. Real estate activity declined from 3.1 percent above the long-term normal in July 1959 to 12 percent below the normal in May 1960. It looked for a while as though real estate were recovering when, in September, activity rose to only 5.5 percent below the normal. But now it has slipped again. The latest figures show that there were about 74.9 voluntary transfers per 10,000 families during the month of November, about 10 percent below the long-term normal trend. Mortgage loan activity has paralleled that of sales, as would be expected.

Why has real estate, construction, and mortgage activity shown this downward trend before the economy in general? Construction activity has usually led the cycles in economic activity in the United States. Thus, the past year's

VARIATIONS IN SELLING PRICE OF SINGLE-FAMILY RESIDENCES



DATE	TREND IN SELLING PRICE	PROBABLE SELLING PRICE OF A HOUSE THAT SOLD FOR $12,000 IN 1947-49 PERIOD
1947-49	100.0	$12,000
1913	39.9	4,790
1918	34.0	4,080
Feb. '29	77.1	9,250
June '32	34.6	4,150
June '34	39.9	4,790
July '37	46.6	5,590
Apr. '38	43.9	5,270
Mar. '41	43.3	5,200
Oct. '48	104.5	12,540
Oct. '53	118.9	14,270
Oct. '54	121.4	14,570
Oct. '55	124.1	14,890
Oct. '56	123.2	14,780
Oct. '57	126.1	15,130
Oct. '58	127.3	15,280

DATE	TREND IN SELLING PRICE	PROBABLE SELLING PRICE OF A HOUSE THAT SOLD FOR $12,000 IN 1947-49 PERIOD
Jan. '59	128.2	$15,380
Apr. '59	128.9	15,470
July '59	129.4	15,530
Oct. '59	130.1	15,610
Jan. '60	130.4	15,650
Feb. '60	131.0	15,720
Mar. '60	130.9	15,710
Apr. '60	130.5	15,660
May '60	130.1	15,610
June '60	130.1	15,610
July '60	130.4	15,650
Aug. '60	130.0	15,600
Sept. '60	129.4	15,530

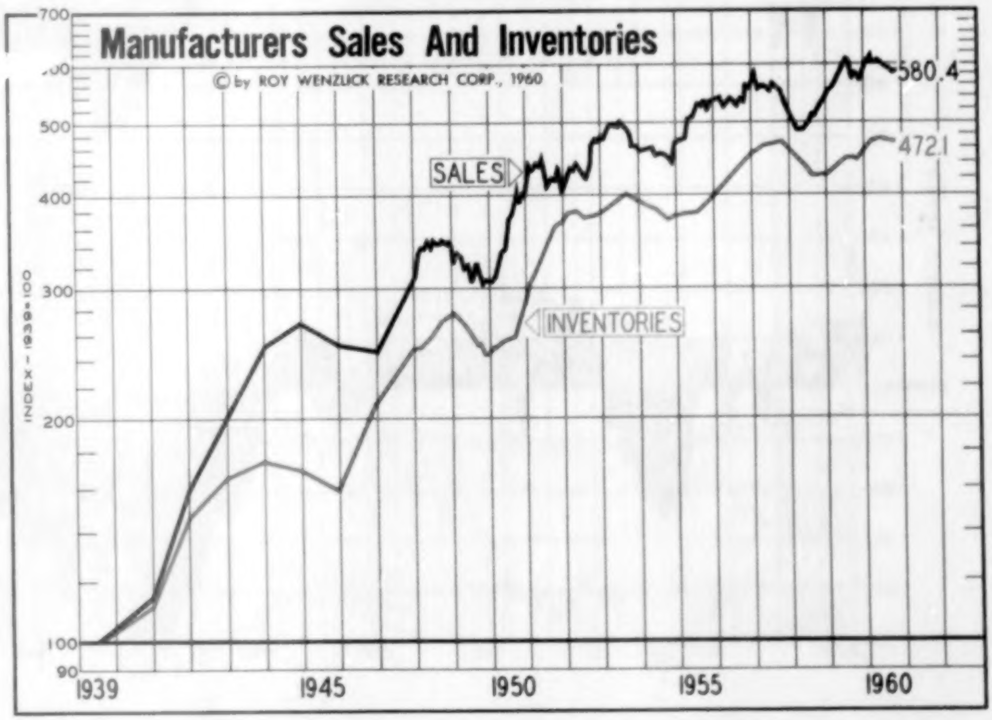
events are not unique. No one has, as yet, developed a satisfactory reason why this should be so. Four factors come to mind, however, in seeking some reason for the recent behavior of the real estate sector.

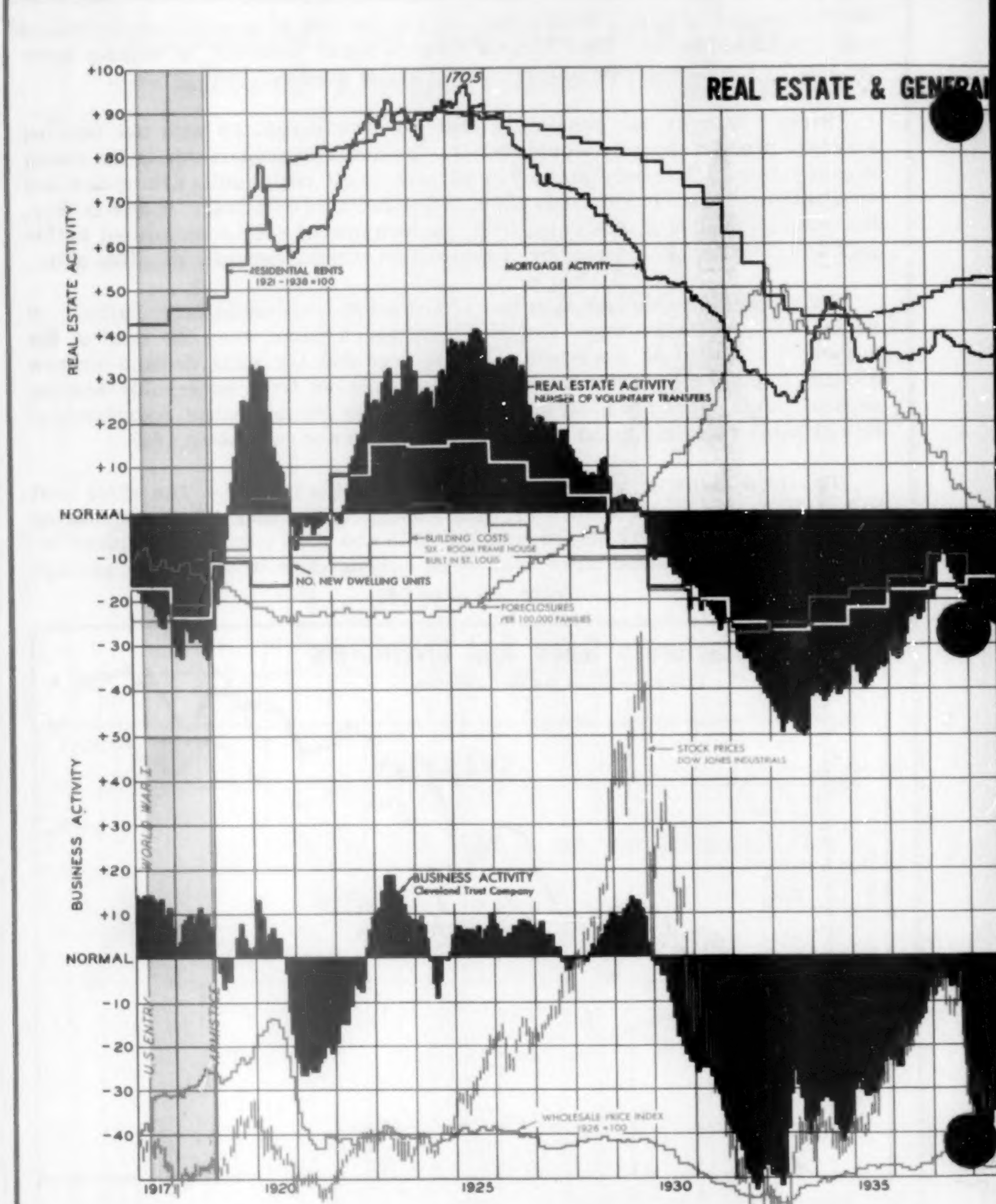
First, there is the possibility that we have caught up with the housing shortage brought about by World War II. Evidence to support this is the rising vacancy rate. Currently about 7.6 percent of all rental units are vacant and available for rent. In 1950 only about 2.5 percent were vacant. If this is true, the main demand will now come from replacement of old, deteriorated buildings and additions to the number of households wanting separate dwelling units.

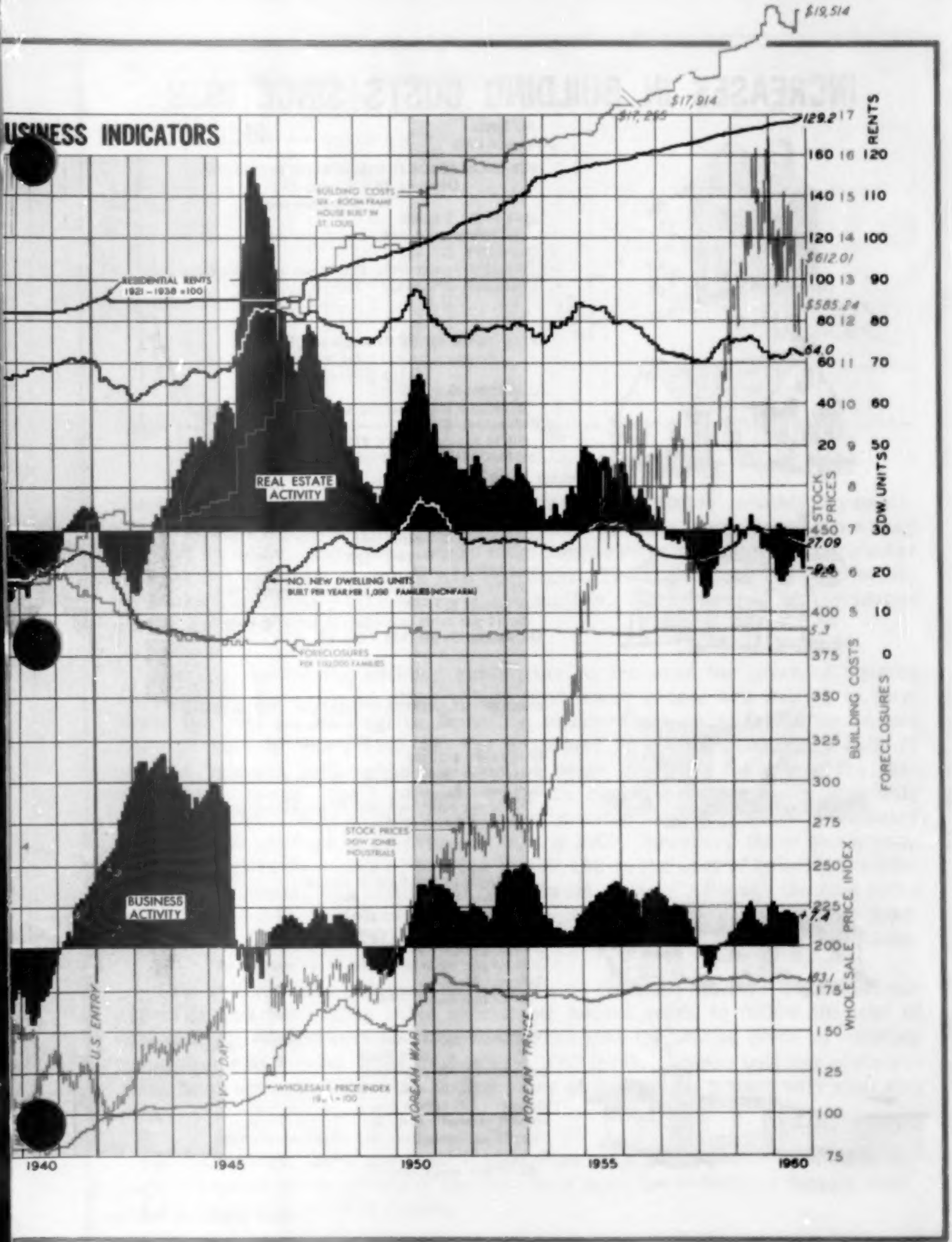
This leads into the second possible factor -- household formation. It seems that, on the average, families purchase a home when the head of the household is 30 to 35 years old. If it is true that the main demand for new dwellings must come from replacement demand or from households seeking separate units, it is not a strong demand because the number of households in this group is decreasing and will continue to decrease until about 1969.

The third factor in the recent real estate slide is finance. The whole first half of 1960 was characterized by tight money. The average interest rate on recorded mortgages has stayed between 6.10 and 6.20 percent throughout the year. Since July, these rates have been coming down but they still average

(cont. on page 595)




REAL ESTATE & GENERA
170.5
REAL ESTATE ACTIVITY
RESIDENTIAL RENTS
1921 - 1938 = 100
MORTGAGE ACTIVITY
REAL ESTATE ACTIVITY
NUMBER OF VOLUNTARY TRANSFERS
NORMAL
BUILDING COSTS
SIX - ROOM FRAME HOUSE
BUILT IN ST. LOUIS
NO. NEW DWELLING UNITS
FORECLOSURES
PER 100,000 FAMILIES
STOCK PRICES
DOW JONES INDUSTRIALS
BUSINESS ACTIVITY
WORLD WAR I
BUSINESS ACTIVITY
Cleveland Trust Company
NORMAL
U.S. ENTRY
ARMISTICE
WHOLESALE PRICE INDEX
1926 = 100
1917
1920
1925
1930
1935



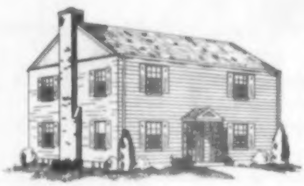
BUSINESS INDICATORS
BUILDING COSTS SIX-ROOM FRAME HOUSE BUILT IN ST. LOUIS
RESIDENTIAL RENTS 1921-1938 =100
REAL ESTATE ACTIVITY
NO. NEW DWELLING UNITS BUILT PER YEAR PER 1,000 FAMILIES (NONFARM)
FORECLOSURES PER 100,000 FAMILIES
BUSINESS ACTIVITY
STOCK PRICES DOW JONES INDUSTRIALS
WHOLESALE PRICE INDEX
U.S. ENTRY
V-J DAY
KOREAN WAR
KOREAN TRUCE
$19,514
$17,914
$17,265
129.2
$612.01
$585.24
64.0
27.09
5.3
+7.4
183.1
RENTS
STOCK PRICES
DW UNITS
BUILDING COSTS
FORECLOSURES
WHOLESALE PRICE INDEX
1940
1945
1950
1955
1960

INCREASES IN BUILDING COSTS SINCE 1939

St. Louis
December 1960

SIX-ROOM BRICK HOUSE (FRAME INTERIOR)*
Content: 23,100 cubic feet
1,520 square feet
Cost 1939: $ 6,400
(27.7¢ per cubic foot; $ 4.21 per square foot)
Cost today: $20,862
(90.3¢ per cubic foot; $13.72 per square foot)
INCREASE OVER 1939 = 226.0%

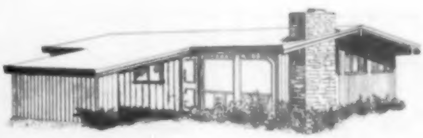
FIVE-ROOM BRICK VENEER HOUSE*
Content: 24,910 cubic feet
1,165 square feet
Cost 1939: $ 5,440
(21.8¢ per cubic foot; $ 4.67 per square foot)
Cost today: $17,602
(70.7¢ per cubic foot; $15.11 per square foot)
INCREASE OVER 1939 = 223.6%



SIX-ROOM FRAME HOUSE*
Content: 24,288 cubic feet
1,650 square feet
Cost 1939: $ 5,671
(23.4¢ per cubic foot; $ 3.44 per square foot)
Cost today: $19,465
(80.1¢ per cubic foot; $11.80 per square foot)
INCREASE OVER 1939 = 243.2%

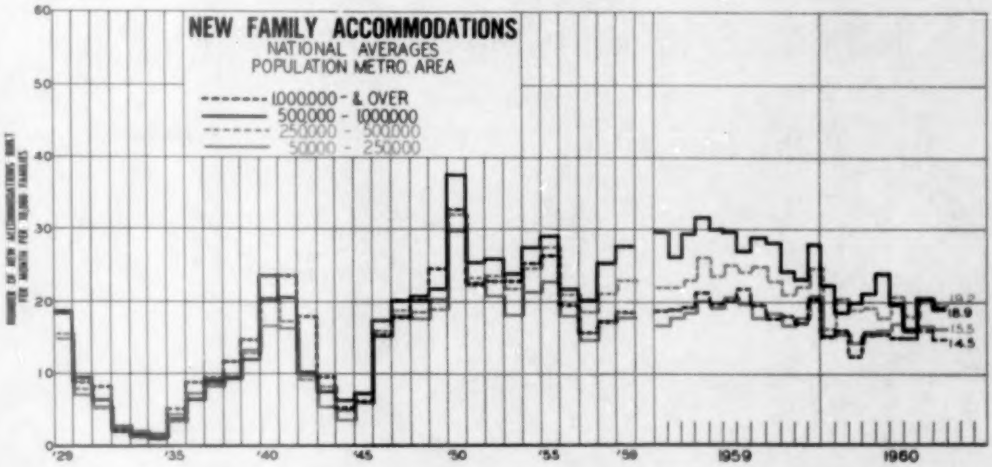
6-ROOM CALIFORNIA BUNGALOW - NO BASEMENT
Content: 12,119 cubic feet
992 square feet
Cost 1939: $ 3,392
(28.0¢ per cubic foot; $ 3.42 per square foot)
Cost today: $11,072
(91.4¢ per cubic foot; $11.16 per square foot)
INCREASE OVER 1939 = 226.4%

STANDARD BRICK RANCH HOUSE
Content: 16,250 cubic feet
840 square feet
Attached garage - 200 square feet
Without garage - $13,774
(84.8¢ per cubic foot; $16.40 per square foot
Garage - $1,057
($5.28 per square foot)



CONTEMPORARY FRAME RANCH HOUSE
(Dry Wall)
Content: 12,285 cubic feet
1,170 square feet
Carport - 320 square feet
Without carport - $14,191
($1.16 per cubic foot; $12.13 per square foot)
Carport - $663
($2.07 per square foot)

*Costs include full basement.



(cont. from page 591)

above 6.12 percent. The higher interest rates mean higher monthly payments. Thus, the scarcity of mortgage money keeps some from borrowing because they can find no funds, and keeps others from borrowing for real estate purchases because the monthly payments are too high. The net result -- fewer sales. With mortgage money increasing in availability, interest rates on mortgages should decline still further.

Finally, increasing building costs may so increase the price of housing compared to the price of other things that fewer people are willing to buy. While the cost of building the Wenzlick standard six-room frame house has risen 46 percent since 1947-49, the consumer price index has risen only 27 percent. During 1959, when construction began its slide, the cost of the six-room frame house rose 3 percent, while the consumer price index rose only about 1 percent. It definitely appears that housing is rising in cost at a faster pace than the average of all prices. During 1960, however, there was a drop from the high in February of $19,609 to $19,152 in the cost of building the six-room frame house, due to declines in millwork costs. Although the cost today stands at $19,514, which is still less than it was at the beginning of the year, increases in labor costs have almost completely offset the previous reductions.

This is exceedingly important because we have found in the course of our research that the selling price of existing houses tends to follow the cost of new building. The chart on page 590 shows that the selling price of existing houses is down 1 point from its January 1960 level. Unless building costs resume their upward climb, the selling price of existing houses will also stay down.

In retrospect, 1960 has been a good, but not a great year. The most important aspects of the events of the year have been the underlying factors causing the downward trend of events.

ROY WENZLICK INDICATORS OF THE REAL ESTATE MARKET

	REAL ESTATE ACTIVITY: Number of Voluntary Real Estate Transfers per 10,000 Families	REAL ESTATE ACTIVITY: % Above or Below Normal	REAL ESTATE SELLING PRICE 1947-49 = 100	CONSTRUCTION ACTIVITY: New Family Accommodations per 10,000 Families by City Size (in thousands): 1,000+	500-1,000	250-500	50-250
N 1959	80.5	-3.0	130.0	17.1	23.1	21.7	17.7
D 1959	80.4	-3.1	130.2	20.6	27.8	25.6	20.7
Ja 1960	78.2	-5.8	130.4	15.4	22.3	16.6	15.2
F 1960	77.6	-6.5	131.0	16.4	18.9	20.1	15.6
Mr 1960	73.9	-11.0	130.9	12.6	20.0	18.7	13.9
Ap 1960	72.9	-12.2	130.5	15.5	21.2	19.0	15.7
My 1960	72.9	-12.2	130.1	15.6	23.9	17.7	15.8
Jn 1960	73.8	-11.1	130.1	15.0	19.9	20.4	16.7
Jl 1960	75.4	-9.2	130.4	15.0	16.3	17.8	15.7
Ag 1960	76.6	-7.7	130.0	16.0	21.2	20.8	16.0
S 1960	78.4	-5.5	129.4	14.5	18.9	19.2	15.5
O 1960	77.4	-6.7					
N 1960	74.9	-9.8					

	MORTGAGE ACTIVITY: Number of Mortgages Recorded per 10,000 Families	AVERAGE INTEREST RATE RECORDED MORTGAGES IN 11 MAJOR CITIES OF THE UNITED STATES	RENTS 1921-38 = 100	COST -- TWO-STORY SIX-ROOM FRAME HOUSE (St. Louis)
N 1959	66.0	5.974%	126.9	$19,578
D 1959	65.7	6.027	127.2	19,578
Ja 1960	63.0	6.099	127.3	19,607
F 1960	64.0	6.156	127.4	19,609
Mr 1960	65.5	6.154	127.5	19,595
Ap 1960	63.9	6.170	127.7	19,443
My 1960	62.5	6.189	127.9	19,244
Jn 1960	63.0	6.209	128.1	19,243
Jl 1960	63.9	6.124	128.3	19,240
Ag 1960	65.5	6.129	128.5	19,209
S 1960	66.1	6.141	128.6	19,152
O 1960	64.9	6.148	128.8	19,514
N 1960	64.0	6.143		19,514